



REDACTED – FOR PUBLIC INSPECTION

VIA ECFS

July 27, 2018

Marlene H. Dortch, Secretary
Federal Communications Commission
Office of the Secretary
445 12th Street, SW
Room TW-A325
Washington, DC 20554

**RE: Cleveland County Telephone Company, SAC 401698
Audited Financial Statements for 2017 FCC Form 481 Annual Report
WC Docket No. 14-58 – ETC Annual Reports and Certifications**

Dear Ms. Dortch:

Cleveland County Telephone Company (“the Company”), Study Area Code 401698, hereby files audited financial statements in connection with its 2017 FCC Form 481 Annual Report. On June 30, 2017, Cleveland County Telephone Company, Decatur Telephone Company, and Wyandotte Telephone Company (collectively, “the ARK-O Holding Companies”) filed a petition for limited waiver of the deadline for submitting audited financial statements with each company’s 2017 FCC Form 481. The ARK-O Holding Companies each timely filed their 2017 FCC Form 481 with unaudited financial statements and committed to submit audited financial statements to the Universal Service Administrative Company (“USAC”), the FCC, and the relevant state commissions when they became available. Audits of the ARK-O Holding Companies’ financial statements for fiscal year 2016 have now been finalized. Thus, the Company has filed the audited financial statements with USAC and is hereby providing a copy of the audited financial report to the Commission. With this submission, the Company is now in full compliance with Sec. 54.313(f)(2) of the FCC’s rules for 2017.

The version of the Company’s audited financial statements submitted via the FCC’s Electronic Comment Filing System (ECFS) is redacted and contains no confidential information. The Company, by its authorized representative, hereby seeks confidential treatment of its audited financial statements pursuant to the March 22,

T (972) 387-4300
F (972) 960-2810

8750 N. Central Expressway
Suite 300
Dallas, TX 75231

Assurance, tax, and consulting offered through
Moss Adams LLP. Wealth management offered through
Moss Adams Wealth Advisors LLC. Investment banking
offered through Moss Adams Capital LLC.

2016 Protective Order in WC Docket Nos. 10-90 and 14-58.¹ The Protective Order specifically covers the financial annual report required by 47 C.F.R. §54.313(f)(2).

Cleveland County Telephone Company is providing to the Office of the Secretary, under seal, this cover letter and the audited financial statements which contain the confidential information that the Company requests be withheld from public inspection.

Each page of the Company's audited financial statements bears the legend, "CONFIDENTIAL INFORMATION – SUBJECT TO PROTECTIVE ORDER BEFORE THE FEDERAL COMMUNICATIONS COMMISSION."

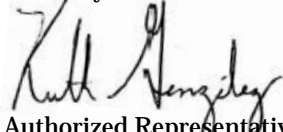
In the filing submitted via the ECFS, all pages bear the legend "REDACTED – FOR PUBLIC INSPECTION."

This cover letter includes no confidential information and the text is the same in both the non-redacted and redacted versions with the exception of the confidentiality markings.

The audited financial statements are also being filed with the relevant state commissions.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Hengley".

Authorized Representative for
Cleveland County Telephone Company

KG/kr

cc: W. Jay Mitchell, Cleveland County Telephone Company

¹ *Connect America Fund, ETC Annual Reports and Certifications*, WC Docket Nos. 10-90 and 14-58, Protective Order, 31 FCC Rcd 2089 (2016).

ARK-O HOLDING COMPANY AND SUBSIDIARIES

Consolidated Financial Statements and
Independent Auditor's Report

December 31, 2016

ARK-O HOLDING COMPANY AND SUBSIDIARIES

Contents

	<u>Page</u>
Independent Auditor's Report	1
Consolidated Financial Statements:	
Consolidated Balance Sheet	2
Consolidated Statement of Operations	3
Consolidated Statement of Changes in Stockholders' Equity	4
Consolidated Statement of Cash Flows	5
Summary of Significant Accounting Policies	6 – 7
Notes to the Consolidated Financial Statements	8 – 12
Supplemental Information:	
Independent Auditor's Report on Supplemental Information	13
Consolidating Balance Sheet	14 – 15
Consolidating Statement of Operations	16



MIZE & HOUSER
COMPANY P.A.

The Board of Directors
ARK-O Holding Company
Seneca, Missouri

Independent Auditor's Report

We have audited the accompanying consolidated financial statements of ARK-O Holding Company and Subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ARK-O Holding Company and Subsidiaries as of December 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (continued)

Emphasis of a Matter

As discussed in Notes 3 and 9 to the consolidated financial statements, the Company is in default on certain loan covenants and as a result of those violations, the lender may demand repayment of the loans. The lender has acknowledged the violations and has not waived any of its rights and remedies under the loan agreement. As of the report date, the lender has not notified the Company of any intent to demand repayment or accelerate repayment of the loans. The long-term portion of the debt has been reclassified to a current liability based on these contractual obligations. The Company cannot determine with certainty what the outcome of this situation might be. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Nije Hauser & Company P.A.
Certified Public Accountants

Overland Park, Kansas
October 4, 2017

ARK-O HOLDING COMPANY AND SUBSIDIARIES

Consolidated Balance Sheet

December 31, 2016

Assets

Current assets:

Cash and cash equivalents
Telecommunications accounts receivable, net of allowance
for doubtful accounts of [REDACTED]
Interexchange carriers accounts receivable
Accounts receivable - CoBank patronage
Accounts receivable - TDS
Other accounts receivable
Materials and supplies
Prepaid expenses
Other current assets
Total current assets

Noncurrent assets:

Investment in CoBank stock
Goodwill, net of accumulated amortization of [REDACTED]
Total noncurrent assets

Property, plant and equipment:

Telecommunications plant under construction
Telecommunications plant in service
Nonregulated property and equipment

Less depreciation reserve

Net property, plant and equipment

Total assets

The accompanying summary of significant accounting policies
and notes are an integral part of these statements.

Liabilities and Stockholders' Equity

Current liabilities:

Current maturities of long-term debt
Less loan costs, net of amortization
 Current maturities of long-term debt, net of loan costs
Accounts payable
Accrued salaries and wages
Accrued property and other taxes
Other accrued liabilities
Accrued interest
Advanced billings and payments
 Total current liabilities

Long-term liabilities:

Advances from related parties
 Total long-term liabilities

Total liabilities

Stockholders' equity:

Common stock, no par value, 30,000 shares
 authorized, 200 shares issued and outstanding
Retained deficit
 Total stockholders' equity

Total liabilities and stockholders' equity

ARK-O HOLDING COMPANY AND SUBSIDIARIES

Consolidated Statement of Operations For the Year Ended December 31, 2016

Operating revenues:

Local network service revenue
Network access service revenue
Miscellaneous revenue - regulated
Long distance revenue - nonregulated
DSL and other nonregulated revenue
Total operating revenues

Operating expenses:

Plant specific
Plant non-specific:
 Network and other
 Depreciation and amortization
Goodwill amortization
Customer operations
Corporate operations
Nonregulated operating expenses
Total operating expenses
Net operating loss

Operating taxes:

Other operating taxes
Total operating taxes
Net loss from operations

Interest expense:

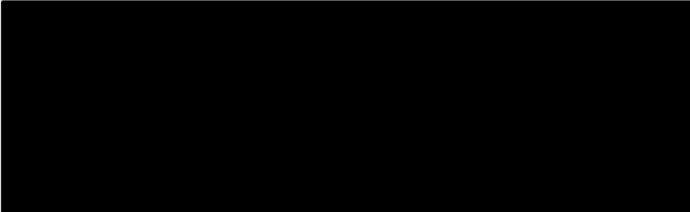
Interest on long-term debt, net of capitalized interest of [REDACTED]
Total interest expense

Net loss

The accompanying summary of significant accounting policies
and notes are an integral part of these statements.

ARK-O HOLDING COMPANY AND SUBSIDIARIES

Consolidated Statement of Changes in Stockholders' Equity
Year Ended December 31, 2016

	<u>Common Stock</u>	<u>Retained Deficit</u>	<u>Total Stockholders' Equity</u>
Balance at December 31, 2015			
Net loss for 2016			
Balance at December 31, 2016			

The accompanying summary of significant accounting policies
and notes are an integral part of these statements.

ARK-O HOLDING COMPANY AND SUBSIDIARIES

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2016

Cash flows from operating activities:

Net loss

Adjustments to reconcile net loss to net cash

provided by operating activities:

Depreciation and amortization

Goodwill amortization

Amortization of loan costs

Non-cash patronage

Bad debt expense

(Increase) in accounts receivable

Decrease in materials and supplies

(Increase) in prepaid expenses

(Increase) in other current assets

Increase in accounts payable

(Decrease) in advanced billings and payments

(Decrease) in accrued expenses

Net cash provided by operating activities

Cash flows from investing activities:

Extension and replacement of property, plant and equipment

Proceeds from sale of land and buildings

Net cash used in investing activities

Cash flows from financing activities:

Advances from related parties, net

Net cash provided by financing activities

Net decrease in cash and cash equivalents

Cash and cash equivalents at beginning of year

Cash and cash equivalents at end of year

Supplemental cash disclosures:

Cash paid for interest, before patronage of [REDACTED] and including
capitalized interest of [REDACTED]

Non-cash financing and investing activities:

Offset of accounts receivable collections against accrued income taxes payable

Accounts payable for property additions at year-end

ARK-O HOLDING COMPANY AND SUBSIDIARIES

Summary of Significant Accounting Policies
Year Ended December 31, 2016

Principles of Consolidation

The consolidated financial statements include the accounts of ARK-O Holding Company (ARK-O) and its wholly-owned subsidiaries, Decatur Telephone Company (Decatur), Cleveland County Telephone Co. Inc. (Cleveland) and Wyandotte Telephone Company (Wyandotte).

All significant intercompany accounts and transactions have been eliminated. For the purposes of these consolidated financial statements, the term "the Company" refers to any member of the consolidated group.

Description of Business

ARK-O and its wholly-owned subsidiaries provide telecommunications exchange, local access, long distance, internet and other telecommunications services to business and residential customers located in Arkansas and Oklahoma. Revenues from the provision of network access to interexchange carriers are explained in Note 5.

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. Telephone operations reflect practices appropriate to the telephone industry. The accounting records of the regulated telephone companies are maintained in accordance with the Uniform System of Accounts for Class A Telephone Companies prescribed by the Federal Communications Commission.

Identification of Related Parties

The Company is related by common ownership and management with Seneca Telephone Company (Seneca), Goodman Telephone Company, Inc. (Goodman), Ozark Telephone Company (Ozark) and S-GO Leasing Company (S-GO).

Telecommunications Plant

Telecommunications plant in service at December 31, 2016 is stated at original cost. For consolidated financial statement purposes, Decatur, Cleveland and Wyandotte record depreciation on regulated plant in service on a straight-line basis at annual rates prescribed by the Arkansas and Oklahoma Public Service Commissions, which will depreciate the property over its estimated useful life. Management annually reviews these assets to determine whether carrying values have been impaired.

Nonregulated property and equipment is recorded at original cost. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in income. For consolidated financial statement purposes, the Company recorded depreciation on nonregulated property utilizing the straight-line method over estimated useful lives. Nonregulated property is fully depreciated at December 31, 2016.

For income tax purposes, the Company provides for depreciation utilizing both straight-line and accelerated methods as prescribed by income tax regulations.

Accounts Receivable

Accounts receivable including telecommunications, interexchange carriers and other are stated at the amount management expects to collect from balances outstanding at year-end. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The change in the valuation allowance was an increase of \$[REDACTED] for 2016.

ARK-O HOLDING COMPANY AND SUBSIDIARIES

Summary of Significant Accounting Policies Year Ended December 31, 2016

Materials and Supplies

Materials and supplies inventories are valued on the average cost basis.

Goodwill

The Company adopted the accounting alternative available to private companies under Accounting Standards Update 2014-02 (ASU 2014-02), Intangibles and Other (Topic 350): Accounting for Goodwill. In accordance with ASU 2014-02, goodwill is being amortized over ten years and is tested for impairment when a triggering event occurs that indicates that the fair value of the entity may be below its carrying amount. The Company has elected to test goodwill at the entity level. Goodwill as recorded at December 31, 2016, results from the acquisition of the common stock of Decatur, Cleveland and Wyandotte as of December 31, 2015 accounted for under the purchase method of accounting as outlined in Note 2.

Loan Costs

Costs associated with the issuance of long-term debt are capitalized and amortized using the straight-line method over the term of the related debt. The Company reports such costs as a direct reduction from the face amount of the related debt and reports the amortization of such costs as interest expense.

Income Taxes

ARK-O has elected Subchapter S (Sub S) status under the Internal Revenue Code. Effective December 31, 2015, Wyandotte, Decatur and Cleveland elected to be treated as Qualified Subchapter S Subsidiaries and as such, will be included in the Sub S income tax return of ARK-O. Under the Sub S election, the income taxes on earnings are payable personally by the Company's stockholders.

The Company files income tax returns in the United States federal jurisdiction and Arkansas and Oklahoma state jurisdictions. ARK-O filed its initial income tax returns for the year ended December 31, 2015 and those returns are subject to federal and state income tax examinations by taxing authorities. There are currently no examinations of the Company's income tax returns in progress.

Decatur, Cleveland and Wyandotte were taxed as Subchapter C corporations prior to the purchase of their common stock by ARK-O. They filed their federal income tax returns as part of the consolidated income tax return of their common parent and each Company filed separate state income tax returns. Those income tax returns are generally no longer subject to federal and state income tax examinations by taxing authorities for years before 2013. By terms of the purchase agreement, ARK-O is not liable for any taxes related to periods prior to the acquisition that might result from such examinations.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ARK-O HOLDING COMPANY AND SUBSIDIARIES

Notes to the Consolidated Financial Statements Year Ended December 31, 2016

1. Cash and Cash Equivalents

The Company maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to established limits. At times, the amounts on deposit exceed FDIC insured limits. The Company has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on cash balances.

2. Acquisition

On December 31, 2015, the Company purchased all the common stock of Decatur, Cleveland and Wyandotte from TDS Telecommunications Corp. (TDS). The following table summarizes the estimated fair values of assets acquired and liabilities assumed with the acquisition of the three regulated telephone companies as of the acquisition date:

Assets acquired:
 Cash
 Accounts receivable
 Materials and supplies
 Telephone plant in service, net
 Telephone plant under construction

Total assets acquired

Liabilities assumed:
 Accounts payable
 Accrued income tax – affiliated
 Accrued taxes
 Other current liabilities

Total liabilities assumed

Goodwill purchased

Total consideration paid

Acquisition costs directly related to the above transaction were \$ [REDACTED] for the year ended December 31, 2015.

3. Long-term Debt

Long-term debt consists of the following at December 31, 2016:

Note payable to CoBank, dated December 31, 2015, terms as described below

\$ [REDACTED]

The Company entered into a term loan agreement with CoBank on December 31, 2015 in the amount of \$ [REDACTED]. The Company was required to make quarterly interest only payments from the closing date through December 31, 2016. Commencing on January 20, 2017 and occurring quarterly thereafter through the maturity date of December 31, 2022, the outstanding principal balance is to be repaid as follows: quarterly payments of \$ [REDACTED] for the period January 1, 2017 through December 31, 2018; quarterly payments of \$ [REDACTED] for the period January 1, 2019 through December 31, 2019; quarterly payments of \$ [REDACTED] for the period January 1, 2020 through September 30, 2022; and the balance due of \$ [REDACTED] in the fourth quarter of 2022.

ARK-O HOLDING COMPANY AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
Year Ended December 31, 2016

3. Long-term Debt (continued)

Interest on the loan agreement is calculated using either the weekly quoted variable rate option or the fixed rate option based on the Company's selection. As of December 31, 2016, the Company had selected the weekly variable rate option on the entire loan balance and the interest rate was 3.52% at December 31, 2016.

Substantially all of the assets of the Company serve as security for the long-term debt. The Company has pledged a security interest in all capital stock and voting securities as security for the long-term debt. In addition, Decatur, Cleveland and Wyandotte are guarantors of the long-term debt.

The Company is required to maintain certain affirmative covenants related to financial ratios, financial reporting and advances with affiliates under the terms of the loan agreement. At December 31, 2016, the Company was not in compliance with certain of these covenants. Based on these events of default, CoBank has the right to demand repayment of the loan and consequently the full amount of the debt has been classified as current in the consolidated financial statements. Maturities outlined below are based on scheduled payments included in the loan agreement.

Maturities on long-term debt at December 31, 2016 are as follows:

2017
2018
2019
2020
2021
Thereafter



Per the terms of the loan agreement, the Company was required to acquire equity in CoBank and is eligible to participate annually in stock patronage dividends awarded by CoBank. At December 31, 2016, the Company has \$[REDACTED] of CoBank A stock.

4. Profit-Sharing

The Company participates in the Seneca Telephone Company 401 k) Plan. The profit-sharing plan is a tax deferred 401(k) profit-sharing plan whereby eligible employees may elect annually to contribute up to 25% (within prescribed limits) of their compensation and the Company matches contributions up to 25% of the first 4% of eligible compensation. Under the provisions of the plan, the Company can also make discretionary profit-sharing contributions. These contributions are allocated to eligible employees who meet certain qualifications as defined by the plan. Company discretionary contributions and matching contributions to the plan were [REDACTED] and \$[REDACTED] respectively, for the year ended December 31, 2016. The costs were allocated based on labor distributions.

ARK-O HOLDING COMPANY AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
Year Ended December 31, 2016

5. Network Access Service Revenue

Revenues from interstate network access services are received through tariffed access charges filed by the National Exchange Carrier Association (NECA) with the Federal Communications Commission (FCC) on behalf of its member companies. These access charges are billed by the Company to the interstate long distance carrier and pooled with like revenues from all NECA member companies. The portion of the pooled access charge revenue received by the Company is based upon its actual cost of providing interstate long distance service, plus a return on investment dedicated to providing that service. These revenues for the year ended December 31, 2016 are subject to final review and approval by NECA. Company policy is to record any adjustments of these revenues in the period in which the adjustments become known. Management believes that revenues recorded at December 31, 2016 represent reasonable estimates of the final amounts to be received under the arrangement referred to in this paragraph.

In addition to the revenues described above, the Company receives support from the Universal Service Fund (USF) related to the cost of providing local telephone service in high cost areas as well as the recovery of certain revenues impacted by the "USF/ICC Transformation Order" (the Order). The amount of such support is determined annually based on Company specific data. USF revenues included in network access service revenues were approximately [REDACTED] of total operating revenues for the year ended December 31, 2016. Additionally, the Company receives reimbursement from the Oklahoma High Cost Fund (OKHCF) and the Arkansas High Cost Fund (ARHCF) to recover a portion of its cost of providing service to its rural customers. OKHCF and ARHCF revenues included in network access service revenues were approximately [REDACTED] of total operating revenues for the year ended December 31, 2016.

Revenues received from the provision of network access for intrastate long distance service in Oklahoma are on an access charge basis. These intrastate access charges are based on tariffs filed with the Oklahoma Public Service Commission and are billed to the appropriate carriers based on their usage. Revenues received from the provision of network access for intrastate long distance service in Arkansas are on an access charge basis for traffic sensitive access charges. These intrastate access charges are based on tariffs filed with the Arkansas Public Service Commission and are billed to the appropriate carriers based on their usage. Revenues received from the provision of intrastate long distance service in Arkansas for carrier common line charges are billed to the appropriate carriers and then pooled with like revenue from other carriers with the Arkansas Carrier Common Line Pool (ACCLP). The portion of the pooled revenues received by the Company are based on amounts established by the ACCLP.

6. Related Party Transactions

The Company reimburses and receives reimbursements from related parties for certain salary, benefits, material, rent, facilities, and overhead costs, which are incurred by each company on the others' behalf. Additionally, the Company received advances from related parties during 2015 and 2016.

The Company rents office space from Seneca on a month to month basis. Office rent expense of \$[REDACTED] is included in the consolidated statement of operations for the year ended December 31, 2016.

As of December 31, 2016, the Company had a payable to Seneca of \$[REDACTED], a payable to Goodman of \$[REDACTED], a payable to Ozark of \$[REDACTED], and a payable to S-GO of \$[REDACTED]. No interest was incurred with Seneca, Goodman, Ozark or S-GO for the year ended December 31, 2016 due to restrictions imposed on those transactions by the loan agreement of the Company. At December 31, 2016, the amounts due to Seneca, Goodman, Ozark and S-GO are classified as noncurrent liabilities in these consolidated financial statements based on anticipated repayment dates and repayment restrictions imposed on those transactions by the loan agreement of the Company.

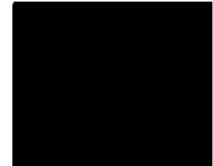
ARK-O HOLDING COMPANY AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
Year Ended December 31, 2016

7. Operating Leases

Under terms of the purchase agreement outlined in Note 2, the Company entered into three circuit sub-lease agreements with TDS Long Distance Corporation (affiliate of TDS) for existing internet circuits at Decatur, Cleveland and Wyandotte. Those sub-leases expire from October 2018 through September 2020. Future minimum lease payments under these operating leases follow (see paragraph below):

2017
2018



In September of 2016, the Company discontinued use of the leased circuit in Wyandotte which has an expiration date of October 2018. In 2017, the Company discontinued use of the Decatur leased circuit which has an expiration date of September 2020. Both the Wyandotte and the Decatur circuit leases were officially terminated in 2017. The Company has not recorded the future lease costs associated with the Wyandotte circuit that was disconnected in September 2016 as the amount of the future payments due under the lease is in dispute and no reasonable estimate of the termination cost is available. Lease expense was recognized for the year ended December 31, 2016 as incurred under the terms of the original agreements. Future minimum lease payments above reflect the termination of both the Wyandotte and Decatur leases in 2017 under the terms of the original sub-lease arrangements. No adjustment has been made to the payment amounts for disputes related to these costs.

Total lease expense for the year ended December 31, 2016 was approximately \$ [REDACTED]

The Company reimburses S-GO for circuit lease costs that have been contracted for and paid by S-GO. Allocations of those costs are made based on usage of the circuits. Circuit lease expense recorded to S-GO for the year ended December 31, 2016 was \$ [REDACTED]

8. Contingency

As described in Note 5, the Company received [REDACTED] of its 2016 operating revenues from access revenues and assistance provided by the Federal Universal Service Fund. As a result of the National Broadband Plan, the manner in which access revenues and Universal Service Funds are determined has been modified by the Federal Communications Commission in an order effective December 29, 2011. Among other things, this order provides for (1) a requirement to provide broadband services; (2) the establishment of a Connect America Fund (CAF) to replace current USF and high cost support mechanisms with a cap on the total fund; (3) modifications to the current rate of return support model including caps on the recovery of certain expenditures; (4) a reduction in the terminating access charges billed by the Company over a nine year period with eventual transition to a bill-and-keep framework for the exchange of traffic between carriers; (5) a new access recovery charge on monthly customer bills; and (6) a national framework for reporting and oversight.

On March 30, 2016, the FCC released a Report and Order, Order On Reconsideration, and Further Notice of Proposed Rulemaking to reform USF. On November 1, 2016, the FCC gave rural local exchange carriers the opportunity to opt-in to a new Alternative Connect America Model (A-CAM) or to go with a revised version of rate-of-return legacy support. The Company elected to go with a revised version of rate-of-return legacy support. The impact on the Company's future revenues is uncertain at this time.

ARK-O HOLDING COMPANY AND SUBSIDIARIES

Notes to the Consolidated Financial Statements Year Ended December 31, 2016

9. Going Concern

As outlined in Note 3, the Company is not in compliance with certain loan covenants, and CoBank has notified the Company regarding these covenant violations and has reserved its rights and remedies related to the loan covenant violations, including the right to accelerate repayment or demand full repayment of the loans. The Company plans to enter into negotiations with CoBank to restructure the loan covenants and loan repayment requirements based on projected operating results. Failure to reach an agreement to restructure the loan would not allow the Company to meet the loan covenants based on current operations. The Company cannot determine with certainty what the outcome of these negotiations might be. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

10. Subsequent Events

The Company has evaluated subsequent events through October 4, 2017, the date which the consolidated financial statements were available to be issued.

SUPPLEMENTAL INFORMATION



MIZE & HOUSER
& COMPANY P.A.

The Board of Directors
ARK-O Holding Company
Seneca, Missouri

Independent Auditor's Report on Supplemental Information

We have audited the consolidated financial statements of ARK-O Holding Company and Subsidiaries as of and for the year ended December 31, 2016, and our report thereon dated October 4, 2017, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information on pages 14 through 16 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mize Houser & Company P.A.

Certified Public Accountants

Overland Park, Kansas
October 4, 2017

ARK-O HOLDING COMPANY AND SUBSIDIARIES

Consolidating Balance Sheet December 31, 2016

	<u>ARK-O Holding Company</u>	<u>Decatur Telephone Company</u>	<u>Cleveland County Telephone Co. Inc.</u>	<u>Wyandotte Telephone Company</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Assets</u>						
Current assets:						
Cash and cash equivalents						
Telecommunications accounts receivable						
Interexchange carriers accounts receivable						
Accounts receivable - CoBank patronage						
Accounts receivable - TDS						
Other accounts receivable						
Materials and supplies						
Prepaid expenses						
Other current assets						
Total current assets						
Noncurrent assets:						
Investment in subsidiaries						
Investment in CoBank stock						
Goodwill, net of accumulated amortization						
Total noncurrent assets						
Property, plant and equipment:						
Telecommunications plant under construction						
Telecommunications plant in service						
Nonregulated property and equipment						
Less depreciation reserve						
Net property, plant and equipment						
Total assets						

The accompanying summary of significant accounting policies and notes are an integral part of these statements.

ARK-O HOLDING COMPANY AND SUBSIDIARIES

Consolidating Balance Sheet December 31, 2016

	ARK-O Holding Company	Decatur Telephone Company	Cleveland County Telephone Co. Inc.	Wyandotte Telephone Company	Eliminations	Consolidated
<u>Liabilities and Stockholders' Equity</u>						
Current liabilities:						
Current maturities of long-term debt						
Less loan costs, net of amortization						
Current maturities of long-term debt,						
net of loan costs						
Accounts payable						
Accrued salaries and wages						
Accrued property and other taxes						
Other accrued liabilities						
Accrued interest						
Advanced billings and payments						
Total current liabilities						
Long-term liabilities:						
Intercompany advances						
Advances from related parties						
Total long-term liabilities						
Total liabilities						
Stockholders' equity:						
Common stock						
Additional paid in capital						
Retained earnings (deficit)						
Total stockholders' equity						
Total liabilities and stockholders' equity						

ARK-O HOLDING COMPANY AND SUBSIDIARIES

Consolidating Statement of Operations
For the Year Ended December 31, 2016

	ARK-O Holding Company	Decatur Telephone Company	Cleveland County Telephone Co. Inc.	Wyandotte Telephone Company	Eliminations	Consolidated
Operating revenues:						
Local network service revenue						
Network access service revenue						
Miscellaneous revenue - regulated						
Long distance revenue - nonregulated						
DSL and other nonregulated revenue						
Total operating revenues						
Operating expenses:						
Plant specific						
Plant non-specific:						
Network and other						
Depreciation and amortization						
Goodwill amortization						
Customer operations						
Corporate operations						
Nonregulated operating expenses						
Total operating expenses						
Net operating income (loss)						
Operating taxes:						
Other operating taxes						
Total operating taxes						
Net income (loss) from operations						
Other income:						
Equity in earnings of subsidiaries						
Total other income						
Income (loss) before interest expense						
Interest expense:						
Interest on long-term debt						
Total interest expense						
Net income (loss)						

The accompanying summary of significant accounting policies and notes are an integral part of these statements.